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MANUFACTURERS HANOVER

Financial Digest

Volume XXVIII, Number 9 Monday, May 6, 1991

Analysis of Business Trends Plus Selected Financial Indicators

Auto Sales Downshift

Postwar euphoria has turned to postwar gloom for the U.S. auto industry in the wake of persistently soft car sales reports since the end of the Gulf War. Those who had pinned their hopes for an early end to this recession on the traditional stimulus—a recovery in consumer spending, particularly on big-ticket items—have seen those hopes deferred yet again by the April sales numbers.

While there are signs of consumer life in certain segments of the housing market, these seem based upon bargain prices unique to that industry. Anecdotal upbeat evidence for the auto industry, on the other hand, whether a recovery in consumer confidence, or reports of a pick-up in showroom traffic, has yet to translate into an improvement in auto sales by any measure due to declining real personal incomes, a low level of savings and tightened credit standards by many dealers.

Sales of U.S.-produced passenger cars for the second 10 days of April ran at a seasonally adjusted annual pace of just 5.6 million units, off from the same period a year ago by 12½ percent. The picture does not improve significantly using more complete retail sales data for domestic and imported light vehicles—passenger cars and light trucks which substitute for passenger cars. On this basis, sales were off by an estimated 11.3 percent compared with the same period a year ago and for the year to date by 18 percent. While, at first glance, these declines may appear modest compared with the severe contractions of 1974 or 1980, it should be noted that 1990's light vehicle sales were already off their 1986 peak by nearly 16 percent. What is more, consumer demand may be even weaker than these dismal results indicate, as the data from some of the companies include an estimated 30-40 percent of sales to fleets, rather than to individual buyers.

While the market share of the Japanese manufacturers has continued to increase, no group of manufacturers has escaped the sales decline. Honda is once again offering incentives on the Accord, the best-selling car in the United States, and even production of the venerable Rolls Royce has been cut by 18 percent. This near-term drop in sales has only exacerbated the long-term problem of excess capacity in the industry worldwide, caused by the decline of the U.S. dollar which has trimmed demand for some expensive imports, and by increased production by the Japanese manufacturers. The simultaneous financial drain of heavy capital spending, excess capacity, financial incentives, and, for some, a higher proportion of low-margin fleet sales, is wreaking havoc on industry profitability.

Consolidation In Progress

The substantial earnings plunge in the U.S. market sustained by the traditional American manufacturers has been well publicized. Perhaps less well known is the fact that many of the foreign manufacturers are also losing money on their U.S. operations. Indeed, one leading industry participant has stated publicly that no auto manufacturer is making money in the U.S. market.

As a result, a consolidation is underway, including the permanent closure of some U.S. and European assembly plants, along with several takeovers of smaller European and Japanese firms by larger companies with deeper pockets. However, the adjustment is proceeding only slowly. Substantial "exit barriers" to the market have retarded industry consolidation globally, whether in the form of payments to severed workers for the traditional U.S. manufacturers, or the implied no lay-off commitment of the Japanese firms, or hefty charges to earnings for shuttered plants.

The manufacturers operating in the United States seem to share this believe-it-when-we-see-it attitude toward a recovery in auto sales. First quarter production was slashed, and the second quarter assembly schedule, at five million passenger cars, is under even current low levels of demand. As a result, although individual manufacturers may have a problem, industry inventories of finished vehicles are so low that even a modest, but sustained, pick-up in demand from current levels could translate quickly into higher production.

Manufacturers Hanover Economics Department 17/270

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A Tepid Recovery?

Nonetheless, the timing and strength of such a recovery is problematic. While the industry had hoped for a recovery beginning in the second half of this year, recent comments on the possibility of permanently shuttering more plants and even re-opening the contract with the United Automobile Workers may indicate that recovery—for autos, at least—is now perceived to be further away.

Even if higher incomes and easier credit terms boost sales, a robust recovery from the 1991 trough in subsequent years is not assured. Virtually all optimistic forecasts hinge upon the traditional assumption of the existence of "pent-up demand", or the desire by the consumer to replace old vehicles, but postponed until the arrival of better economic times. It is not clear that such demand will provide the usual stimulus this time around.

While a staggering total of 62 million light vehicles were purchased in this country during the prolonged expansion from 1984 to 1988, and these vehicles, under traditional circumstances would now be prime candidates for replacement, one major obstacle to sharply higher sales is the eroding ability of the average family

Short Term Paper Outstanding

(Millions of Dollars)

Time Deposits $100,000 or more Weekly Reporting Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/17/91)	200,571	- 753	- 13,445
New York City (4/24/91)	32,105	- 612	- 7,325
Commercial Paper (4/24/91)	552,456	- 5,244	+ 6,703

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/17/91)	319,163	+ 1,464	- 7,924
New York City (4/24/91)	56,902	- 523	- 1,570

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (4/17/91)	1,052,847	+ 4,639	+ 40,384
New York City (4/24/91)	173,875	- 3,785	- 7,034

Financial Markets

	Friday 5/3/91	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.61%	- .16	- 2.39
180-Day Bills†	5.79	- .17	- 2.43
Longest Bills†	6.07	- .10	- 2.31
Recent Issues:			
7 s 4/30/93	6.79	- .09	
7⅛s 4/30/96	7.64	- .03	
7¼s 2/15/01	8.03	- .02	
7⅞s 2/15/21	8.22	+ .01	
Municipals:			
Bond Buyer—20 Bond Index* (5/2/91)	6.95%	- .06	- .59
Blue List Total ($ Million)	$1,030	- $170	- $164
30-Day Visible Supply ($ Million)	$2,532	+ $265	- $515
Total	$3,562	+ $ 95	- $679
Corporates:			
Moody's Aa Composite (5/2/91)	9.05%	- .06	- .79
30-Day Visible Supply ($ Million)	$ 400	+ $190	+ $180
Stocks:			
Dow-Jones Averages:			
Industrials	2,938.86	+ 26.48	+228.50
Transportation	1,171.02	+ 4.94	+ 25.93
Utilities	211.46	+ 1.64	+ 3.08
65 Stocks	1,052.09	+ 7.60	+ 53.74
N.Y.S.E. Composite Index	208.40	+ 1.13	+ 23.02
N.Y.S.E. Avg. Daily Vol. for Week (000's)	176,603	+ 12,635	+36,615

*34% Taxable equivalent 10.53%.

† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 5/3/91	Week Ago
Overnight	5.75%	5.88%
1 month	5.81	6.00
3 month	5.88	6.06
6 month	6.00	6.25
1 year	6.44	6.69

FOREIGN EXCHANGE SPOT RATES

New York Opening (5/3/91)	Currency Per U.S. $	Week Ago
Belgium	35.28	36.09
Canada	1.1502	1.1519
France	5.8035	5.9200
Germany	1.7130	1.7549
Italy	1270.00	1296.00
Japan	137.85	138.30
Mexico	3008.60	2996.60
Netherlands	1.9300	1.9768
South Korea	709.99	711.07
Switzerland	1.4475	1.4740
Taiwan	26.85	26.87
U.K.*	1.7268	1.8550

*U.S. $ per U.K. pound

MH TRADE-WEIGHTED DOLLAR (5/3/91) (Adjusted for Inflation)	Change Since Week Ago	Change Since 2/27/85
	+1.0%	+7.9%

to afford a new car. Another is the impact of the continuous release into the market of large numbers of "retired" fleet vehicles. These nearly new vehicles have been repurchased from the rental car companies by the auto manufacturers, and are then made available to the public through the auction system and the established dealer network. The result is the wide availability of large numbers of current model cars at heavy discount from the price of the new version.

While full figures are unavailable, partial evidence indicates these vehicles may be affecting new car sales. A 1990 study conducted by a major automobile consulting firm found, for example, that 58 percent of buyers of fleet vehicles had also shopped for new vehicles. So, too, the rise in the ratio of used car expenditures to new car expenditures from 28 percent in 1978 to over 40 percent in recent years suggests that at least some new vehicle buyers may be opting for used vehicles. If so, these signs point in the direction of only limited pent-up demand, and therefore toward a modest, rather than strong recovery in retail light vehicle sales. While any rebound would certainly be a welcome improvement, a tepid upturn may well trigger further industry consolidation, not to mention additional job losses. ■

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 5/1/91	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	247.758	+ 1.005	+17.316
Loans to Depository Inst.	.273	+ .060	- .717
Float	1.044	+ .551	+ .638
Total Reserve Bank Credit	286.090	+ 1.832	+13.628
Treasury Deposits with Federal Reserve Banks	5.746	+ .237	+ 1.203
Currency in Circulation	286.407	- .788	+26.451
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	241.477	+ 1.283	+18.087
Member Bank Reserves:	**5/1/91**		
Total Reserves Held	49.900	- 1.115	- 10.762
Excess (Deficiency)	1.210	+ .410	+ .105
Net Free Reserves	1.069	+ .417	+ .220
Monetary Aggregates †		**‡ % Change Since 3 Months Ago***	**Year Ago**
M1 (4/22/91)	841.5	+ 9.6	+ 4.6
M2 (4/22/91)	3,386.6	+ 6.9	+ 3.5
M3 (4/22/91)	4,178.9	+ 5.7	+ 2.7
Domestic Nonfinancial Debt (4th Q'90)	10,579.9	+ 7.3	+ 7.9

† Seasonally adjusted.

* Seasonally adjusted annual rate.
‡ Four-week moving average.

New York Money Market

Offering Rates 5/3/91	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.49%	5.60%	5.76%
* Federal Agencies	6.00	6.05	6.30
* Municipal Notes–High Grade (34% Taxable Equivalent)	6.06	6.44	6.82
Negotiable Time CDs			
Manufacturers Hanover	Rates By Arrangement		
* Secondary Market–Prime	5.91	6.03	6.50

‡ Finance Company Paper–Prime		‡* Bankers' Acceptances	
5- 14 days	5.78%	Jun.	5.77%
15- 29 days	5.78	Jul.	5.77
30- 59 days	5.73	Aug.	5.77
60- 89 days	5.77	Sep.	5.77
90-179 days	5.77	Oct.	5.78
180-239 days	5.77	Nov.	5.77
240-270 days	5.77		

‡ Industrial Paper–Prime			
30- 89 days	5.84%	†Federal Funds Effective Rate	5.50%
90-120 days	5.85		

‡ Discount basis. *Subject to availability. † Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	1st Q'91 n	$ 5,562	$ 5,527	$ 5,375
Gross National Product (1982 Dollars)*	1st Q'91 n	$ 4,124	$ 4,153	$ 4,151
Percent Change, Annual Rate	1st Q'91 n	- 2.8	- 1.6	1.7
Change in Consumer Prices*	Mar '91	- 1.2%	2.4%	4.8%
Change in MH Cost of Living Index*	Mar '91	2.4%	7.2%	6.0%
Change in Producer Prices*	Mar '91	- 3.6%	- 7.2%	- 1.2%
Civilian Employment (Thousands of Persons) †	Apr '91 n	117,398	116,754	118,090
Unemployment as % of Civilian Labor Force †	Apr '91 n	6.6%	6.8%	5.4%
Personal Income*	Mar '91 n	$ 4,746	$ 4,734r	$ 4,595
Leading Indicators Composite Index (1967=100) †	Mar '91 n	141.1	140.4r	145.4
Industrial Production Index (1977=100) †	Mar '91	105.3	105.7	108.9
Net Change in Consumer Installment Credit †	Feb '91	- $ 2.30	- $ 2.26	$ 0.04
U.S. Merchandise Trade Balance †	Feb '91	- $ 5.33	- $ 7.16	- $ 7.10
Plant and Equipment Expenditures*	2nd Q'91	$ 547.9 (a)	$ 540.8 (a)	$ 535.5
Private Housing Starts (Thousands of Units)*	Mar '91	901	993	1,298
New Construction Expenditures*	Mar '91 n	$ 391.4	$ 397.4r	$ 457.3
Total Business Inventories †	Feb '91	$ 829.8	$ 831.4	$ 810.0
Total Business Sales †	Feb '91	$ 529.6	$ 527.1	$ 536.0

*Seasonally adjusted annual rate. † Seasonally adjusted.

n-Newly reported figure. r-Revised. a-Anticipated.

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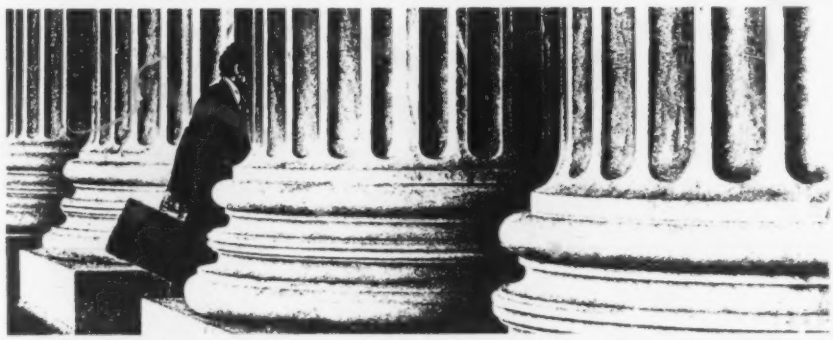
Strength



In 1992 stringent new capital standards will go into effect throughout the banking industry worldwide.

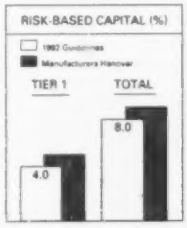
We exceeded these standards 2 years ago.

At year-end 1990, Manufacturers Hanover Corporation's primary capital totaled $6 billion, and our risk-based ratios placed us well above the new requirements established by the Basle Committee on Banking Regulations and Supervisory Practices.

Our ratios also placed us among the highest in our peer group of major money center banks.

Tumultuous times have necessitated the recognition of a primary yardstick for measuring the capital strength and overall health of our banking institutions. These new international standards are now providing that yardstick.

The focus on capital adequacy underscores the fact that the landscape of banking is changing. It also strongly suggests that only the best capitalized institutions will be able to take advantage of change and address their customers' evolving needs in an effective and timely fashion.



Using capital to measure the strength of a financial institution is hardly a new practice at Manufacturers Hanover. And while exceeding the new standards may be noteworthy, our aim is to continue building upon the sturdy financial foundation we already have in place.

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Manufacturers Hanover Corporation
Bank Window, Church St. Station
New York, N.Y. 10015

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ATTN SRI
4520 EAST-WEST HWY
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